

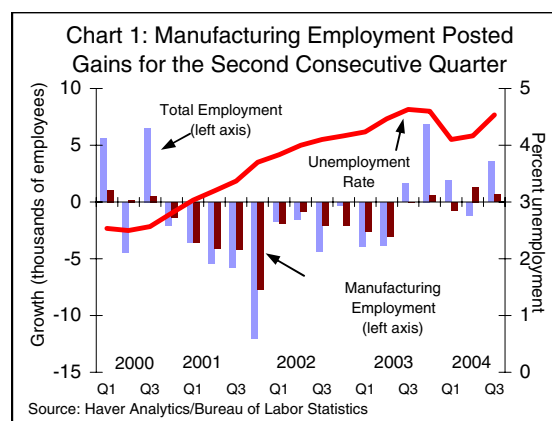
# FDIC State Profile

Winter 2004

## Iowa

**Total employment and manufacturing posted gains in the third quarter of 2004.**

- Iowa's manufacturing sector is beginning to show signs of strength. In the third quarter, Iowa experienced the first back-to-back quarters of manufacturing job growth in four years (See Chart 1).
- Improvement in the manufacturing sector provides evidence of recovery for Iowa's overall economy. While manufacturing accounts for 16 percent of the state's workforce, the sector accounted for more than 31,000 of the 42,000 jobs lost during the downturn.
- The jump in the unemployment rate to 4.5 percent in the third quarter reflects the re-entry of workers—motivated to look for work by the incipient recovery—into the labor force.



**Banking performance remains solid.**

- As Iowa's economy has rebounded, so have bank asset quality and loan volume (See Table 1). After declining for three years, loans as a percent of assets increased more than two percentage points year-over-year at third quarter 2004.
- Overall earnings performance remained positive, though competition continues to compress margins and profitability. The number of unprofitable institutions in 2004 declined for the second straight year and represents just 1.7 percent of all established institutions in Iowa.

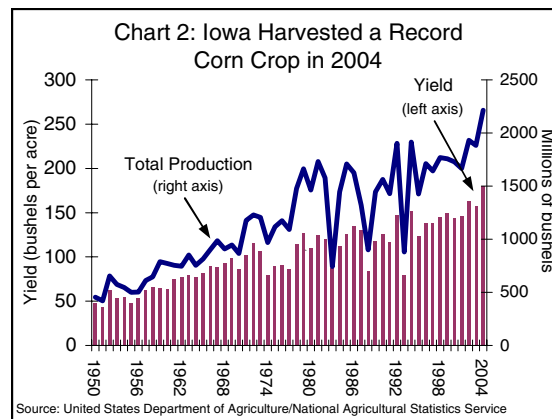
**Table 1: Asset Quality Improved and Capital Levels Increased While Earnings Continue to Decline Slowly**

	September				
	2004	2003	2002	2001	2000
<b>Capital</b>					
Tier 1 Leverage Capital Ratio	9.46	9.15	9.1	9.08	9.14
<b>Asset Quality</b>					
Past Due Loan Ratio	1.36	1.56	1.58	1.55	1.28
Net Charge-off Rate	0.03	0.04	0.07	0.04	0.03
<b>Earnings</b>					
Pretax Return on Assets	1.48	1.53	1.60	1.39	1.47
Net Interest Margin	3.79	3.79	3.97	3.69	3.81

Source: FDIC. Figures are median values.

**Iowa harvested a record corn crop in 2004.**

- In 2004, Iowa's corn crop exceeded 2.25 billion bushels, its largest harvest on record, exceeding 2 billion bushels for the first time. Iowa farmers attained a record average yield of 183 bushels per acre (See Chart 2).
- Iowa's harvest accounted for 19 percent of the nation's record production of 11.7 billion bushels. The state has ranked first in corn production in 24 of the past 25 years.
- The record crop will likely result in less revenue for Iowa farmers, however. The forecasted decline in price to \$1.90 per bushel will more than offset the increase in the volume of the crop, a typical scenario for agricultural commodities.



## State Profile

Corn, the state's most important agricultural commodity, accounted for 28 percent of Iowa's revenue over the past five years.

### The long-term trend of core funding erosion has resumed.

- In the 1990s, a confluence of competitive factors, ranging from rapidly increasing stock prices to strong deposit growth in large banks and credit unions, made core deposits more difficult to acquire for community institutions.<sup>1</sup> As a result, core funding in these institutions dropped steadily in the 1990s (See Chart 3).
- Stock market weaknesses in 2001 and 2002 helped to stabilize core funding temporarily, as funds flowed from the markets into the safety of insured deposits.
- However, recent improvement in the stock markets again is luring funds out of community banks, and the long-term downward trend in core funding appears to have resumed. Core funds now make up just 72.7 percent of community bank assets in Iowa, an all-time low.

### Iowa's rural counties are losing population at a more rapid rate.

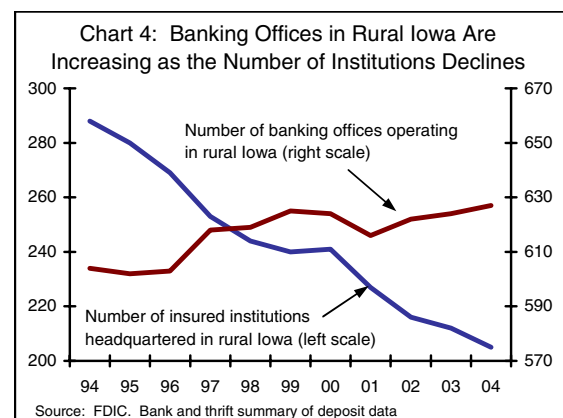
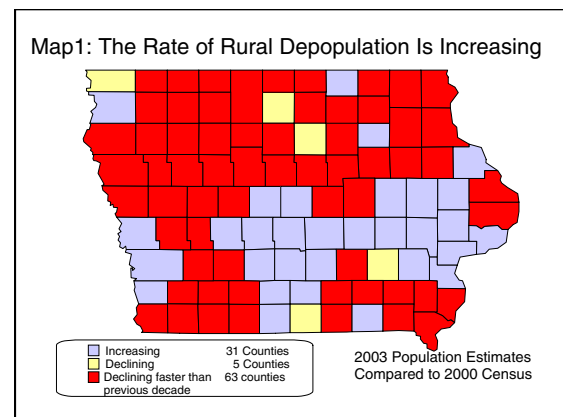
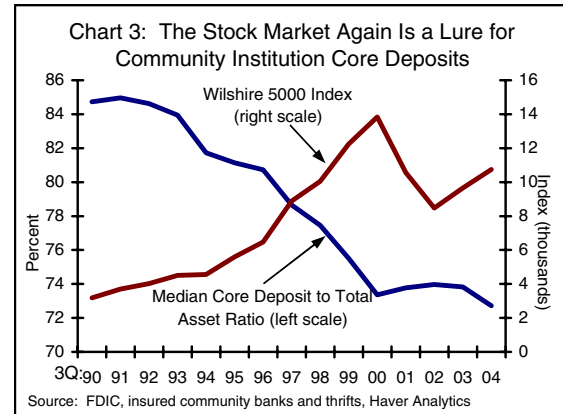
- Sixty-eight of Iowa's 99 counties lost population from 2000 to 2003, extending the long-term trend of rural-to-urban migration. In fact, sixty-three of those counties lost population at a greater rate than during the 1990 to 2000 decade (See Map 1).
- Sac County and Audubon County, rural counties in the western half of the state, each lost more than 5 percent of their population from 2000 to 2003. By contrast, Dallas County in the **Des Moines** metropolitan area grew 13.2 percent during the same period.
- Rural counties that are losing population may be in danger of losing economic viability, as shrinking tax rolls make it difficult to maintain essential infrastructure, such as county government and schools.

### The number of bank offices has increased in rural Iowa despite depopulation.

- With declining population, weak economic growth and lower levels of new bank activity, the rate of loss of hometown institutions in rural Iowa exceeds that of Iowa's urban areas – about 3.3 percent versus 2.4 percent per year during the past decade.
- However, rural Iowa has seen an increase in its banking presence despite a net loss of 83 headquartered institutions. The number of banking offices operating in

rural Iowa increased from 604 to 627 in the 10 years ending June 2004 (See Chart 4).

- Faced with lower market growth prospects and seeking opportunity, rural Iowa institutions are increasingly operating branches in urban areas. As a result, the proportion of branches located in urban areas has increased from 4.6 percent in 1994 to 11.3 percent in 2004. Currently, 33 rural institutions, representing 16.1 percent of all rural Iowa institutions, are operating 57 branch offices in urban areas.



<sup>1</sup>"Core deposits" are presumably stable sources of funds and include savings, checking, and money market accounts, as well as time deposits of less than \$100,000.

## State Profile

### Iowa at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	416	426	435	447	459
Total Assets (in thousands)	50,180,681	55,727,655	53,423,292	50,860,763	47,399,253
New Institutions (# < 3 years)	3	6	13	20	22
New Institutions (# < 9 years)	35	37	39	42	42
Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	9.46	9.15	9.10	9.08	9.14
Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	1.36%	1.56%	1.58%	1.55%	1.28%
Past-Due and Nonaccrual >= 5%	19	29	29	35	17
ALLL/Total Loans (median %)	1.25%	1.30%	1.26%	1.22%	1.21%
ALLL/Noncurrent Loans (median multiple)	2.25	1.98	1.80	1.96	2.61
Net Loan Losses/Loans (aggregate)	0.12%	0.16%	0.23%	0.22%	0.16%
Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	8	11	15	15	18
Percent Unprofitable	1.92%	2.58%	3.45%	3.36%	3.92%
Return on Assets (median %)	1.20	1.19	1.24	1.06	1.11
25th Percentile	0.89	0.86	0.90	0.76	0.80
Net Interest Margin (median %)	3.79%	3.79%	3.97%	3.69%	3.81%
Yield on Earning Assets (median)	5.55%	5.90%	6.77%	7.75%	7.94%
Cost of Funding Earning Assets (median)	1.70%	2.09%	2.77%	4.05%	4.10%
Provisions to Avg. Assets (median)	0.06%	0.07%	0.10%	0.08%	0.08%
Noninterest Income to Avg. Assets (median)	0.55%	0.57%	0.53%	0.52%	0.49%
Overhead to Avg. Assets (median)	2.55%	2.55%	2.54%	2.51%	2.50%
Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	81.60%	77.18%	79.20%	80.13%	80.30%
Loans to Assets (median %)	64.83%	62.71%	64.60%	65.71%	66.20%
Brokered Deposits (# of Institutions)	90	80	68	60	58
Bro. Deps./Assets (median for above inst.)	2.40%	1.58%	2.11%	1.52%	1.56%
Noncore Funding to Assets (median)	16.21%	15.04%	14.98%	14.91%	15.76%
Core Funding to Assets (median)	71.83%	73.19%	73.24%	73.11%	72.57%
Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	296	297	307	316	327
National	46	52	50	46	46
State Member	55	54	56	61	61
S&L	3	5	5	5	5
Savings Bank	16	18	17	19	20
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	327	30,970,737	78.61%	61.72%	
Des Moines IA	24	7,497,582	5.77%	14.94%	
Cedar Rapids IA	19	1,907,518	4.57%	3.80%	
Davenport-Moline-Rock Island IA-IL	11	2,775,765	2.64%	5.53%	
Sioux City IA-NE	8	1,547,197	1.92%	3.08%	
Dubuque IA	8	1,973,817	1.92%	3.93%	
Iowa City IA	7	2,109,544	1.68%	4.20%	
Waterloo-Cedar Falls IA	6	911,422	1.44%	1.82%	
Omaha NE-IA	6	487,099	1.44%	0.97%	